Taxes Prorated at Closing

Property Taxes in Colorado are paid in arears, meaning taxes for the current year are paid next year. Section 16.1.1 in the Contract to Buy and Sell decides how the taxes are to be prorated between the parties.

Why is this important?

1) Assessment Years can cause a big swing in what taxes WILL be for the next calendar year – making it important to discuss both Contract Tax Proration Options with your Buyers and Sellers
2) Show the difference when preparing a Net Sheet for your Sellers or Buyers – often times if can be an easy way to see the options play out.

What is involved?

1) Taxes for the property is to be divided between buyer and seller for the current period (the year the sale occurs)
2) Divided up based on the ownership periods by each party.

Tax Proration Option 1

Calendar Year Proceeding Closing

- Taxes are calculated based on the prior year amount paid.
- This is the simplest method.
- Excludes any changes to the property value or new tax assessment rates for the current year.
- Can have a wide difference in what actually turns out to be the tax bill due to assessment changes to property values.
- Might be considered as an option if new assessments haven't been completed yet.
- Might be considered if assessments are not scheduled to be evaluated that calendar year.

Tax Proration Option 2

Most Recent Mill Levy and Property Assessment

- Calculating the Property Value changes based on the assessors Mill Levy Tax Rates.
- Takes into account recent changes to the values of properties and any changes in the Mill Levy Rates.
- Can be fairer, specifically when property assessments and Mill Levy rates have a major change (either up or down).
- Buyer and Seller are responsible for the best estimate of what future obligation might be for the following calendar year.